

## AN ALTERNATIVE APPROACH TO THE TRADE DYNAMICS IN CROATIA

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### ABSTRACT

The point of understanding the international finance and trade perspective is closely related to comprehension of the terms of trade (exchange rate) – trade balance nexus. How well can a country balance its international trade engagement over international price changes and/or applied exchange rate regime is of great importance, especially for a small, opened, indebted and import dependent country such as Croatia. By focusing on the relationship between the terms of trade, exchange rate, volume of trade, current account and output we are trying to provide some new insights into trade dynamics over a business cycle in Croatia. Furthermore, the analysis is done on aggregate level and evaluates only the market of goods, for it constitutes the larger part of the trade balance. Empirical assessment relies on the lead and lag cross-correlation functions between the variables comprising the period 2000 – 2014. Results suggest the existence of the S-curve pattern leading us to some indicative conclusions regarding the trade dynamics in Croatia.

*Keywords: business cycle, Croatia, S-curve, trade dynamics*